

# **THE LEONARD LETTER**

*August 29, 2005*

## **QUOTE OF THE WEEK**

*"The moment the idea is admitted into society that property is not as sacred as the laws of God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence." --- John Adams*

## **UNDER THE DOME**

### **\*\*\*Tax Cuts\*\*\***

I like tax cuts. That being said, not all tax cuts are created equal. The plan by the Governor and Assembly Speaker to offer refundable tax credits to Hollywood film companies is not one of the better ways to cut taxes. First, nobody likes the idea of a taxpayer getting credit for more taxes than were actually paid. This bill allows that and is rightly being criticized for it. Second, the companies involved have been trooping to Canada for the last several years. They are not going for the climate but for the tax subsidies they get from the Canadian government. Now we are in a bidding war for this business. Third, every business in California is important. Rather than singling out one industry for tax credits, we should be cutting the corporate tax rate across the board to encourage everyone to do business here.

That said, if I were still a legislator I would vote for some version of this bill because the majority Democrats have been so bad about reducing tax rates that I would not get the opportunity to have a vote on tax cuts for everyone. If I cannot get it for everyone, I will take it one industry at a time. One can hope that in learning about the business economics of Hollywood that perhaps some of the anti-tax cut crowd will learn just how expensive it is to do business in California.

## **AROUND THE STATE**

### **\*\*\*Reasonable Recommendation on Immigration\*\*\***

After my piece last week about illegal immigration, I heard from a Fresno constituent, Michael Der Manouel, Jr. He had written an article on the subject for the Fresno Bee that impressed me for its clarity, beginning with his opening sentence: "Washington politicians in both political parties don't get it. In their safe districts, without threat of defeat for their inaction, they've done literally nothing about illegal immigration." He

excoriates both sides of the aisle: "...Republicans are afraid to risk political gains made in the last election among Hispanic voters, and are bowing to pressure from agricultural and business groups that need a labor pool .... Democrats are certainly no better, and their political calculations are just as disturbing. They want open borders and amnesty for the 11 million illegal immigrants in this country for one purpose—amnesty means citizenship, and new Democrat voters. No wonder Americans are cynical." He then advises that "the first political party to adopt a pro-immigration, anti-illegal immigration platform will win America's favor. All who want to come here legally should be welcome. All who break the law to get here should be immediately deported, regardless of race." It is solid political and policy advice. To read all of Mr. der Manouel's column, link to <http://www.fresnobee.com/opinion/wo/v-printerfriendly/story/11121187p-11875931c.html>.

### **\*\*\*Stepping Up to the Plate\*\*\***

The press has focused on the requests of Congressmen Doolittle (R) and Berman (D) to raise money above the federal campaign limits for use in a California state initiative campaign. My question is the political one: can they deliver? If they are seeking rule waivers to raise big bucks to take on Governor Schwarzenegger and a lot of Republicans and Democrats who support redistricting reform, then they had better raise a respectable amount of money and put on a credible opposition campaign. If they do, then perhaps we can have a real debate on the important question of who should draw district lines-- either the legislators themselves in an obvious conflict of interest or a panel of retired judges. If the Congressional delegation does not raise the money, then it will show that they are paper tigers when it comes to California state politics.

### **\*\*\*Pension Problems\*\*\***

The state of California and many of its counties and cities are experiencing pension crises. Our state's teacher retirement fund has a \$24 billion unfunded liability and Los Angeles County's unfunded obligation is at \$5 billion. Pension obligations are a growing portion of government budgets and that means that other government services are suffering. It also means that governments have to consider other means of funding pensions, and many (including the state) are turning to pension obligation bonds. California is actually litigating to ratify \$525 million in pension obligation bonds that were approved as part of the Governor's financial emergency package. This form of financing is not a guarantee of long-term savings and carries with it a set of risks that may outweigh the benefits. To explore this subject and keep up on the latest pension news, I encourage you to visit [www.pensionsunami.com](http://www.pensionsunami.com).

### **\*\*\*Certified, Pre-Owned Tax Problem\*\*\***

Used car dealers are the number one source of assessed dollar amounts for tax penalties in California. More than 13% of all the penalty dollars the BoE brings in come from these dealers. The average dollar recovery, per hour of staff time, is almost three times

the state average for the 2004-05 fiscal year. Used car dealers are the seventh highest type of business audited, representing 3.37% of all field audits, and more than 6% of the total net tax liability. All of these numbers indicate that a fair number of used car dealers have a pattern of substantially understating their sales and use tax liability.

### **\*\*\*Think of Electricity Like Your Hotel Room\*\*\***

Although thus far we have been free of dreaded rolling blackouts this summer, California's electricity system is still seriously troubled. The attempt at restructuring ten years ago did not work out, for a variety of reasons, many of them government caused. Yet the pullback from that experiment has not produced the increased generation that our growing state needs. I was impressed by an article in the Wall Street Journal in which Professor Vernon L Smith, the 2002 Nobel laureate in economics, explains how we can learn from the experiences in other countries. He makes an analogy of electricity to the hotel industry, noting that hotels charge higher rates during peak travel seasons but charge less for those same rooms during times of lower demand. I recommend his piece at <http://www.opinionjournal.com/editorial/feature.html?id=110007096>.

## **MISCELLANY**

### **\*\*\*A Good Read\*\*\***

This week I recommend a book that promotes thinking about the current issues. The book is Choice, the best of Reason. It is a compilation of articles from Reason, which is a very thoughtful Libertarian magazine that I subscribe to. I am in sympathy, if not outright agreement with the Reason crowd much of the time. Libertarians would like as little government as possible so that people have the maximum of freedom. I am convinced that they are very much correct that many social ills are self-correcting within a free market framework. If you simply allow people to make their own choices, the better choices become more widely known and replicated, thus eliminating the need for government to pass laws that eliminate choice and freedom. That government creates and exacerbates many problems is without question. The editors and writers of Reason are very bright people whose ideas are worthy of serious consideration.

## **BOE AND LEGISLATIVE DATES**

**August 31-September 1, 2005** --- BoE meets in Sacramento.

**September 5, 2005** --- Labor Day.

**September 9, 2005** --- Last day for any bill to pass the legislature; interim recess beings upon adjournment.

**September 20-21, 2005** --- BoE meets in Culver City.

**September 21, 2005** --- Taxpayers' Bill of Rights Hearing in Culver City.

**October 25, 2005** --- Taxpayers' Bill of Rights Hearing in Sacramento.

## **NOTABLE DATES/ HISTORY**

**August 29, 1862** --- The second Battle of Bull Run (Manassas) began.

**August 30, 1861** --- John Fremont, then a Major General of the Union Army, issued a proclamation freeing the slaves of Missouri rebels.

**August 30, 1979** --- President Carter was attacked by a rabbit on a canoe trip in Plains, GA.

**August 31, 1903** --- A "Packard" automobile became the first car to cross the U.S. under its own power. The trip from San Francisco, CA to New York City, NY took 52 days.

**August 31, 1964** --- California officially became the most populated state in America.

**September 1, 1772** --- Mission San Luis Obispo de Tolosa formed in California.

**September 1, 1849** --- Delegates of the California Constitutional Convention convened in Colton Hall in the town of Monterey, at noon and admitted to seats 48 delegates. (Eleven delegates more than the number called for in the proclamation showed up.)

**September 1, 1863** --- Railroad and ferry connection between San Francisco and Oakland were inaugurated.

**September 2, 1901** --- Vice President Theodore Roosevelt advised, "Speak softly and carry a big stick."

**September 2, 1945** --- Japan surrendered to the U.S. aboard the USS Missouri, ending World War II. The war ended six years and one day after it began.

**September 3, 1783** --- The Revolutionary War between the U.S. and Great Britain ended with the Treaty of Paris.

**September 4, 1781** --- Los Angeles was founded in Bahia de las Fumas (Valley of Smokes) by 44 settlers.

**September 5, 1774** --- The first Continental Congress assembled in Philadelphia.

# GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

## HOW TO CONTACT ME

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